Results Presentation

Half year ended 31 January 2015




Agenda

1. Strategic update
2. Finance review
3. Operating review
4. Trading and outlook
5. Questions and answers
6. Appendices

Strategic update

Ted Ayres

Chief Executive

Clear strategy for growth

Bellway

Demand	Supply	Capacity
Customer demand is strong	Good quality land opportunities at attractive rates of return	Ability to invest
Gradually improving mortgage availability at competitive rates	Positivity within the planning environment	Existing structure of 15 divisions
Positive but sustainable pricing environment	Manageable labour pressure	New 16th division opened in Bristol

Disciplined volume growth

Notes

Delivering substantial value

Bellway

Volume growth

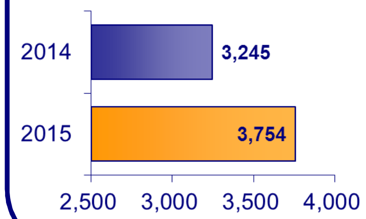
A strong focus on return on capital

Progressive dividend policy

Growth in net asset value

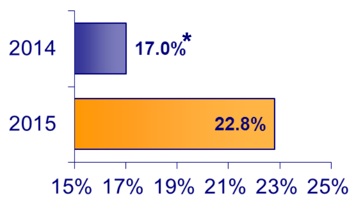
+ 15.7%

No. of homes sold



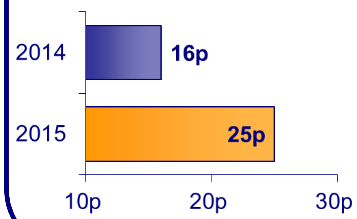
+ 580 bps

Return on capital



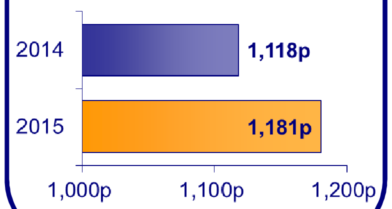
+ 56.3%

Interim dividend



+ 5.6%

Net asset value **



56.1% increase in earnings per share to 103.5p

* Restated - see appendix 9   ** Comparative figure at 31 July 2014

Notes

Finance review

Keith Adey
Finance Director

Notes

Group results

For the half year ended 31 January

	2015		2014*		Mvt
Revenue	£831.2m		£700.4m		18.7%
Gross profit	£195.3m	23.5%	£138.3m	19.7%	41.2%
Administrative expenses	(£29.6m)	(3.6%)	(£29.3m)	(4.1%)	1.0%
Operating profit	**£165.7m**	**19.9%**	**£109.0m**	**15.6%**	**52.0%**
Share of result of JVs	-		£0.1m		(100%)
Net finance expense	(£6.8m)		(£5.3m)		28.3%
Profit before taxation	**£158.9m**		**£103.8m**		**53.1%**
Taxation expense	(£32.5m)		(£23.1m)		40.7%
Profit after taxation	**£126.4m**		**£80.7m**		**56.6%**

Notes

Revenue

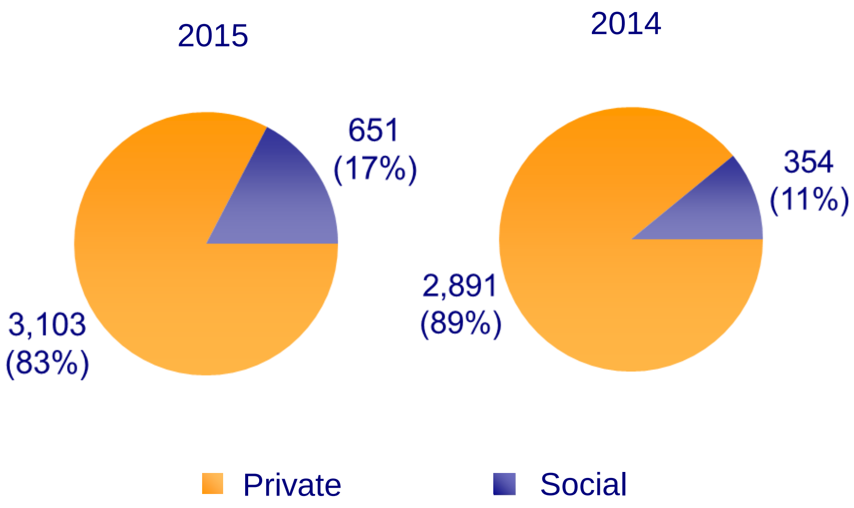
For the half year ended 31 January

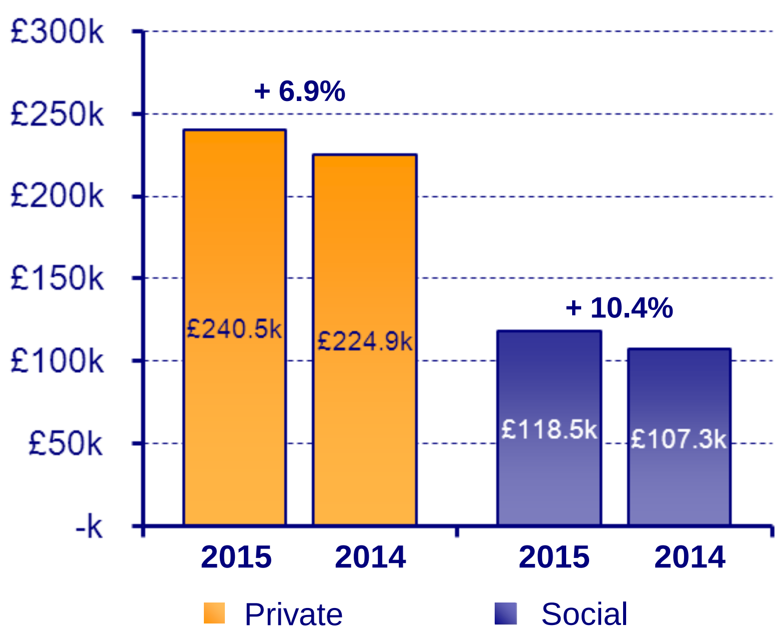
	2015	2014*	Mvt
Homes sold	3,754	3,245	15.7%
Average selling price	£219,343	£212,071	3.4%
Housing revenue	£823.4m	£688.2m	19.6%
Non housing revenue	£7.8m	£12.2m	(36.1%)
Total revenue	**£831.2m**	**£700.4m**	**18.7%**

Notes

Housing revenue: social mix

For the half year ended 31 January





- Social housing expected to be 15% to 20% of full year completions.

- Full year ASP expected to be between £220k to £225k dependent on build profile.

Further analysis showing homes sold and ASP is included in appendix 1

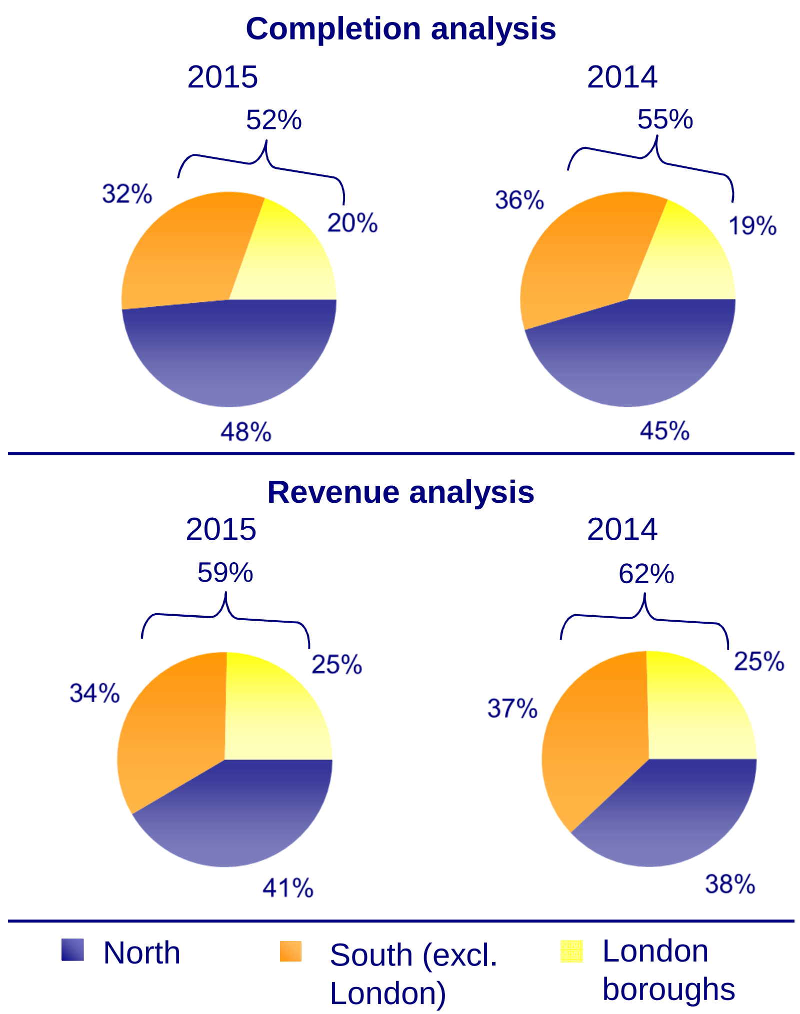
Notes

Housing revenue: geographic mix

Bellway

	2015	2014	Mvt
North			
Homes sold	1,822	1,474	23.6%
Average selling price	£187,777	£177,526	5.8%
South (inc. London)			
Homes sold	1,932	1,771	9.1%
Average selling price	£249,112	£240,823	3.4%
London boroughs			
Homes sold	734	614	19.5%
Average selling price	£276,896	£284,308	(2.6%)

For the half year ended 31 January

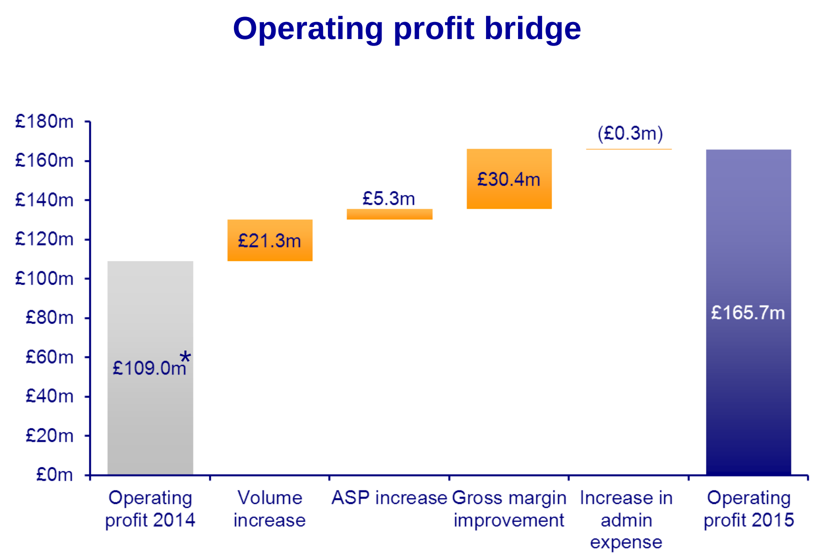


Notes

Operating performance

Bellway

	2015 H1	2014 H1*	2014 H2*	2014 FY*
Gross profit	**£195.3m** *23.5%*	£138.3m *19.7%*	£177.3m *22.6%*	£315.6m *21.3%*
Administrative expenses	**(£29.6m)** *(3.6%)*	(£29.3m) *(4.1%)*	(£30.7m) *(3.9%)*	(£60.0m) *(4.1%)*
Operating profit	**£165.7m** *19.9%*	£109.0m *15.6%*	£146.6m *18.7%*	£255.6m *17.2%*



- Higher margin land and pricing gains have improved gross margin.
- Operating margin for full year expected to be around 20%.
- Capacity for volume growth enables Bellway to deliver further improvements in profitability.

Notes

Net finance expense

For the half year ended 31 January

	2015	2014*	Mvt
Net bank interest payable inc. fees	£3.3m	£1.4m	135.7%
Non bank interest:	£3.5m	£3.9m	(10.3%)
Made up of:-			
Land creditors / debtors – IAS 39	£3.5m	£2.9m	20.7%
Preference dividend	£-m	£1.0m	(100.0%)
Pension cost	£0.1m	£0.2m	(50.0%)
Other interest	(£0.1m)	(£0.2m)	(50.0%)
Total	**£6.8m**	**£5.3m**	**28.3%**

- £400m of committed bank facilities.
- Bank facilities remain a cost effective source of finance.
- Facilities mature in tranches through to 2020.

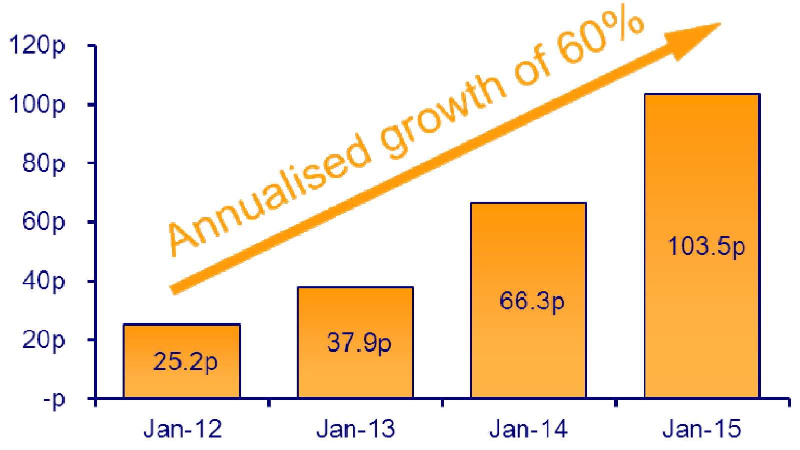
Notes

Earnings growth

For the half year ended 31 January

	2015	2014*	Mvt
Profit before tax	£158.9m	£103.8m	53.1%
Taxation	(£32.5m)	(£23.1m)	40.7%
Effective tax rate	*20.5%*	*22.3%*	
Profit after tax	**£126.4m**	**£80.7m**	**56.6%**
Earnings per share	103.5p	66.3p	56.1%

Half year EPS growth



Annualised rate of growth in EPS has been 60% since January 2012

Notes

Balance sheet

Bellway

As at

	31 January 2015	31 July 2014*
Assets		
Fixed assets	£17.3m	£18.7m
Inventory	£1,948.0m	£1,796.6m
Shared equity	£26.5m	£32.2m
Investment in joint ventures	£26.1m	£26.8m
Net cash	£-m	£3.6m
Debtors	£62.0m	£54.5m
	£2,079.9m	**£1,932.4m**
Liabilities		
Pension deficit	(£12.1m)	(£7.9m)
Creditors	(£346.8m)	(£310.4m)
Land creditors	(£184.1m)	(£248.0m)
	(£543.0m)	**(£566.3m)**
Capital employed	**£1,536.9m**	**£1,366.1m**

Notes

Inventory

As at

	31 January 2015	31 July 2014*	Mvt
Owned and controlled land	£1,225.1m	£1,116.4m	£108.7m
Made up of:-			
DPP: land with **detailed** planning permission	£949.1m	£875.3m	£73.8m
Pipeline and strategic land	£276.0m	£241.1m	£34.9m
Work in progress	£648.1m	£615.8m	£32.3m
Showhomes	£56.6m	£52.9m	£3.7m
Part exchange stock	£18.2m	£11.5m	£6.7m
Total	**£1,948.0m**	**£1,796.6m**	**£151.4m**

Notes

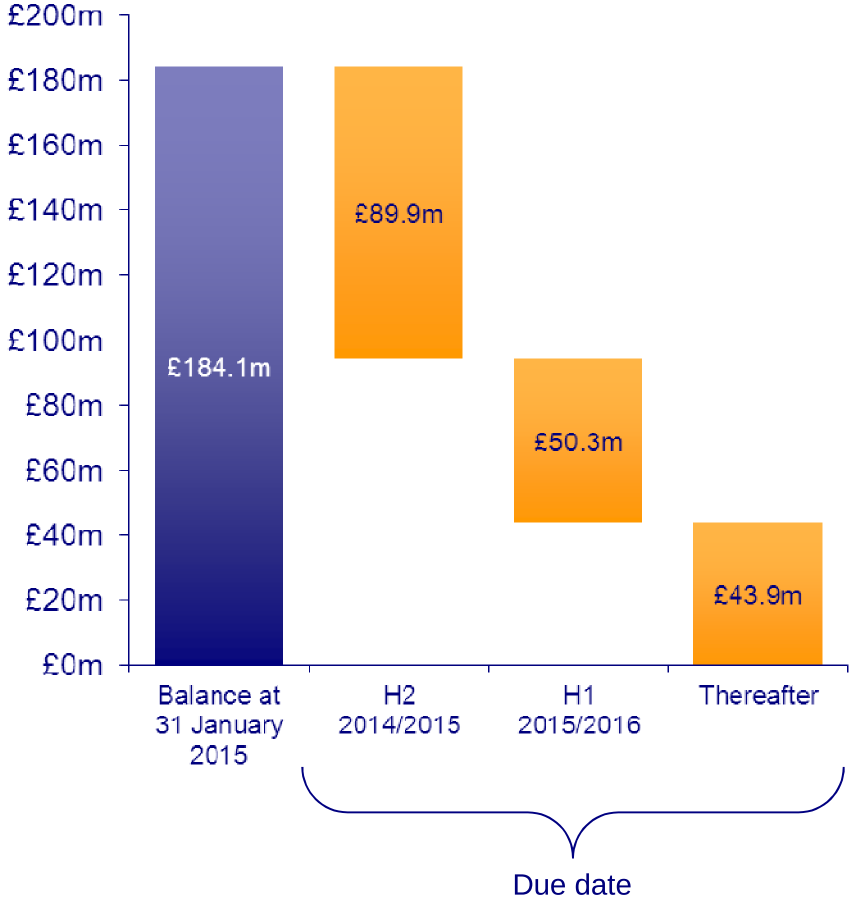
Land with detailed planning permission

Bellway

	Plots	Cost	Average plot cost
Brought forward 1 August 2014	19,434	£875.3m	£45.0k
Sold	(3,754)	(£176.0m)	£46.9k
Net purchases	4,357	£249.8m	£57.3k
Carried forward 31 January 2015	**20,037**	**£949.1m**	**£47.4k**

Notes

Land creditors



- Land creditors are used where the cost of deferral is less than cost of bank finance.
- Land creditors are part of debt structure which is managed in the most cost effective manner.

Notes

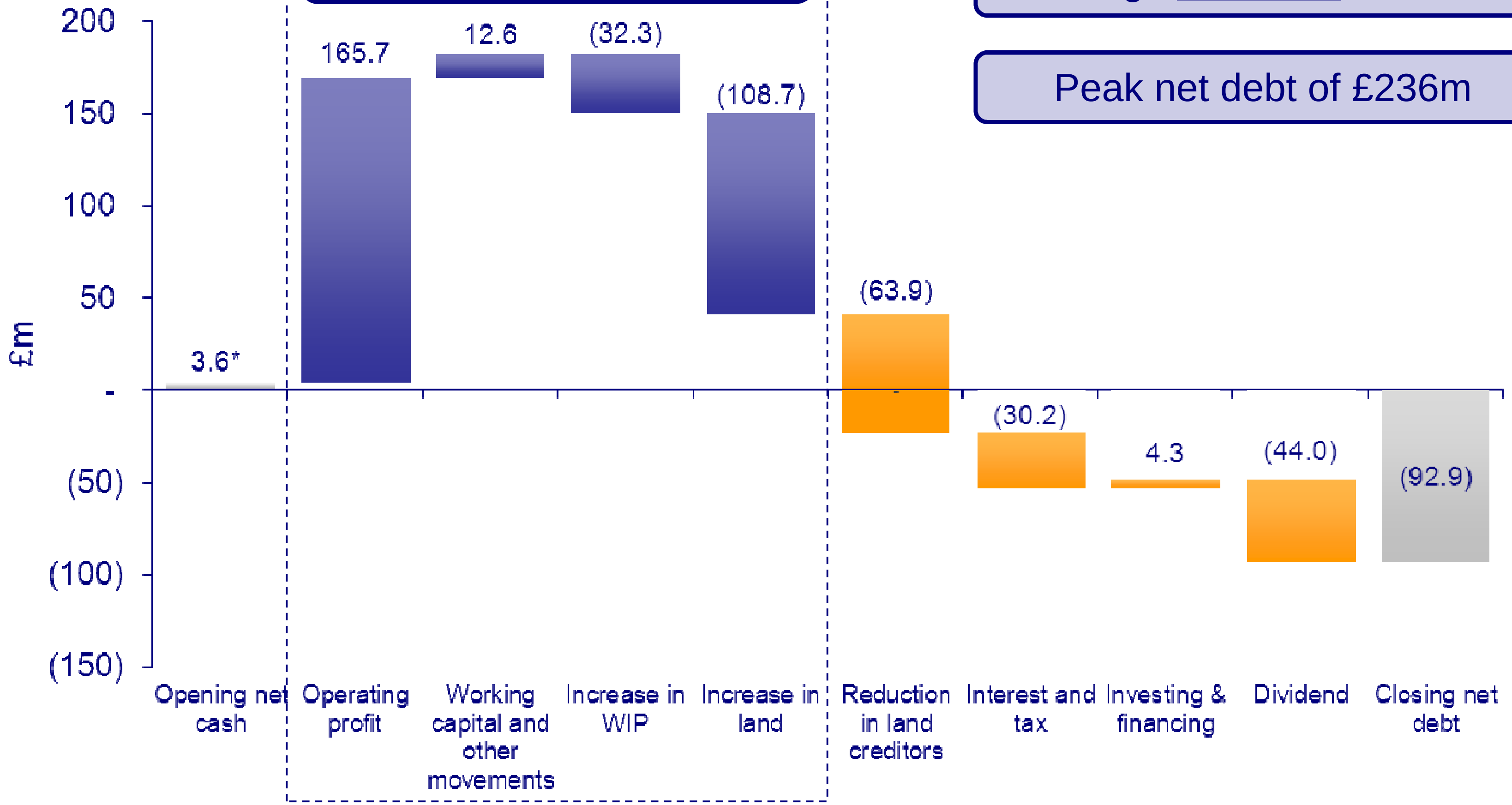
Cash flow

For the half year ended 31 January

£37.3m cash generated from operations

Average **net debt** of £101m

Peak net debt of £236m



Notes

Return on capital employed

Bellway

- Key metric when assessing sites.
- Avoid excessive capital in sites of several years duration.
- Limited exposure to underperforming assets e.g. shared equity and impaired land.
- Focus on sales rate.

	31 January **2015**	31 January **2014**
Capital turn	1.15	1.10

	31 January **2015**	31 January **2014***
RoCE	22.8%	17.0%

Efficient management of balance sheet

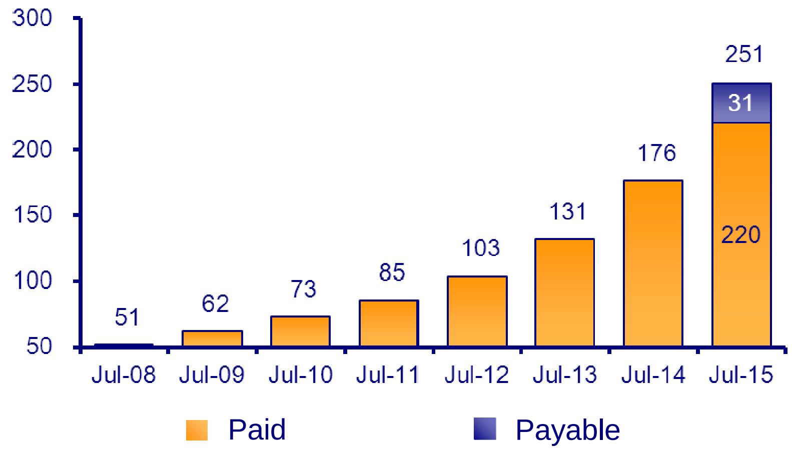
Notes

Dividend

- Regular and progressive dividend policy.
- Dividend paid throughout the recession.
- Including interim dividend, payments will total £251m since recession.
- Expect full year cover of 3 times.
- Balanced approach to dividend will enable further capital growth.
- Flexible to alter approach should there be a change in market conditions.

	31 January 2015	31 January 2014	Mvt
Dividend	25.0p	16.0p	56.3%

Cumulative dividend (£m)

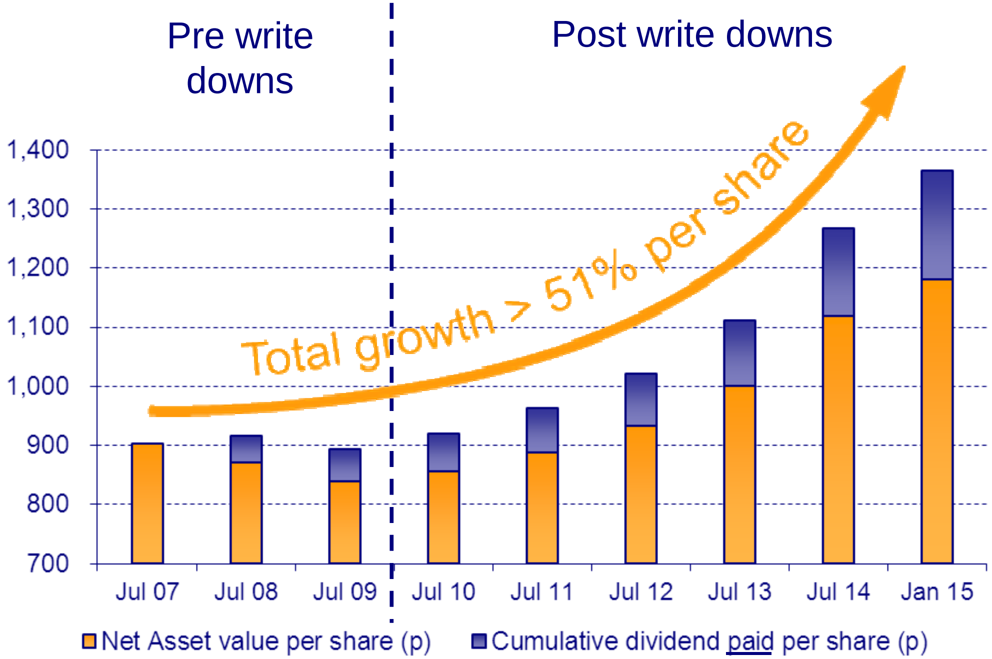


Dividend and capital growth ensures long term sustainable return for shareholders

Notes

Value creation

Bellway



As at

	31 January 2015	31 July 2014
NAV	1,181p	1,118p

	31 January 2015	31 January 2014
RoE	18.0%	12.9%

Sustainable and disciplined approach to growth

Notes

Operating review

Ted Ayres
Chief Executive

Notes

Operational review

- Foundation laid to grow the business.
- The Group is flexible to adapt to changes in a cyclical market.
- Margins have significantly improved by trading through low margin land and accelerating output on new land.

Notes

Product mix

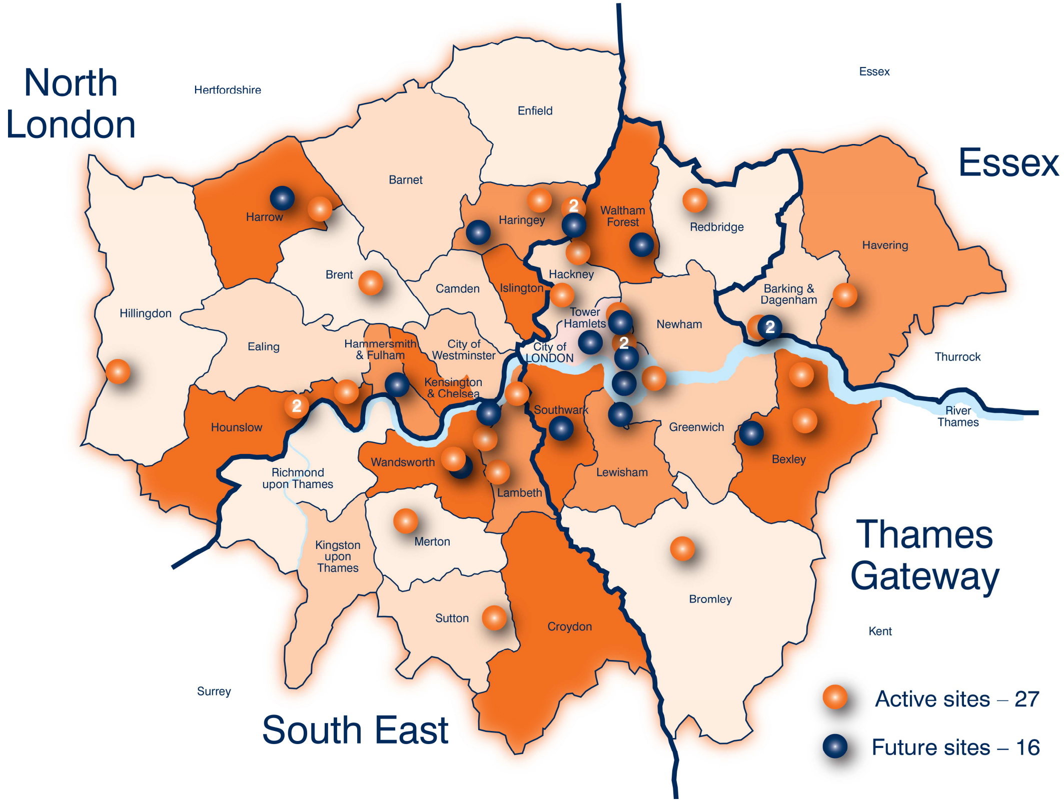
- Reduced exposure to apartments in northern cities.
- Increased expertise in high rise London apartments.
- 28% of output is apartments with over half of these constructed in London.
- Focus on traditional two storey housing outside London.
- Townhouses only 4% of output.
- Significant improvement in ASP over recent years.

Exposure to a variety of market segments allows a flexible approach to land buying

- Further analysis of product mix is included in appendix 2.

Notes

Strong presence in London



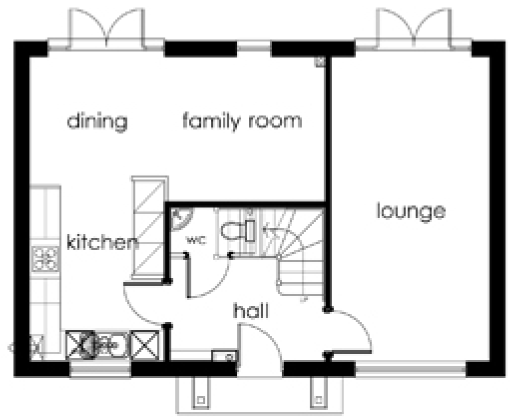
- Demand remains robust.
- 27 active sites.
- 16 sites to be released for sale within the next 24 months.
- Prices now only slightly ahead of expectations on recent launches.
- Significant exposure in zone 2 and beyond.

Notes

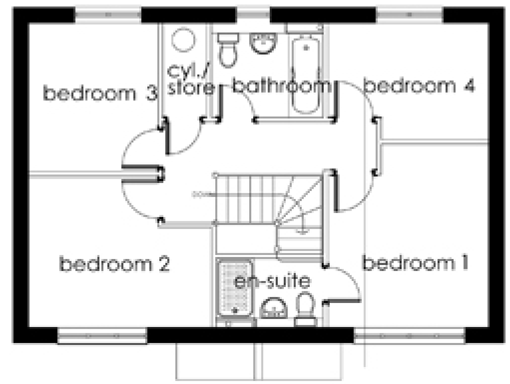
Standard floor plans

- Up to 50% of output could be delivered using standard floor plans.
- 35 new layouts to be rolled out from May 2015.
- Reduction in professional fees could be £500 to £1,000 per unit.
- Strengthened negotiating position with suppliers.
- Helps maintain an efficient build process.

Ground floor



First floor



Notes

Production

- Construction of some major London schemes is outsourced
  - Helps achieve required rate of production.
  - Some certainty on build costs on complex developments.
- Strong relationships with subcontractors.
- Almost 2,200 people directly employed.
- 7,546 units under production of which 49% remain unreserved.
- Completed stock still low at 235 units.

Notes

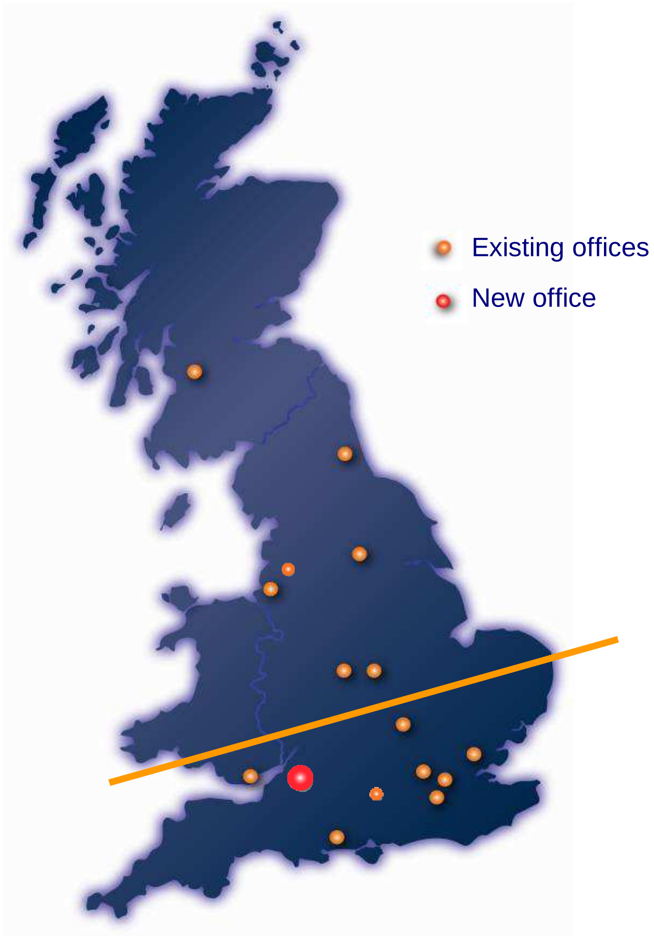
Build costs

- Rationalised supply base over recent years.
- Mandatory Group deals for timber, bricks, blocks and kitchens
  - Rebates at record levels.
- Material cost pressures are low in context of overall build cost.
- Availability of specific sub-contract trades is a continued pressure but cost increases at a manageable level.
- Overall build costs up around 3% to 4%.

Notes

Divisional growth and structure

- New division opened in Bristol in February.
- Anticipate opening another new division in 2015/16.
- Capacity of around 9,000 homes in short to medium term.
- Continuing to assess possible further areas of expansion.
- Ability to grow beyond 9,000 homes.
- Structure supported by three regional chairmen and strengthened central technical team.



Notes

Land acquisition

- £355m spent on land and land creditors.
- Almost £2bn spent on land since downturn.
- Strengthened divisional land and planning teams.
- Favourable planning conditions.
- A focus on brownfield which represents 68% of Group's legal completions.
- Head office land team reviews all land ensuring strict gross margin and ROCE criteria are met.

Notes

Land bank

As at

	31 January 2015	31 July 2014
Owned and controlled plots	**35,837**	35,434
Made up of:-		
DPP: plots with **detailed** planning permission	20,037	19,434
Pipeline: plots pending an implementable DPP	15,800	16,000
Strategic plots	**> 5,300**	> 4,500

Strategic plots are **only** those long term plots which currently have a positive planning status

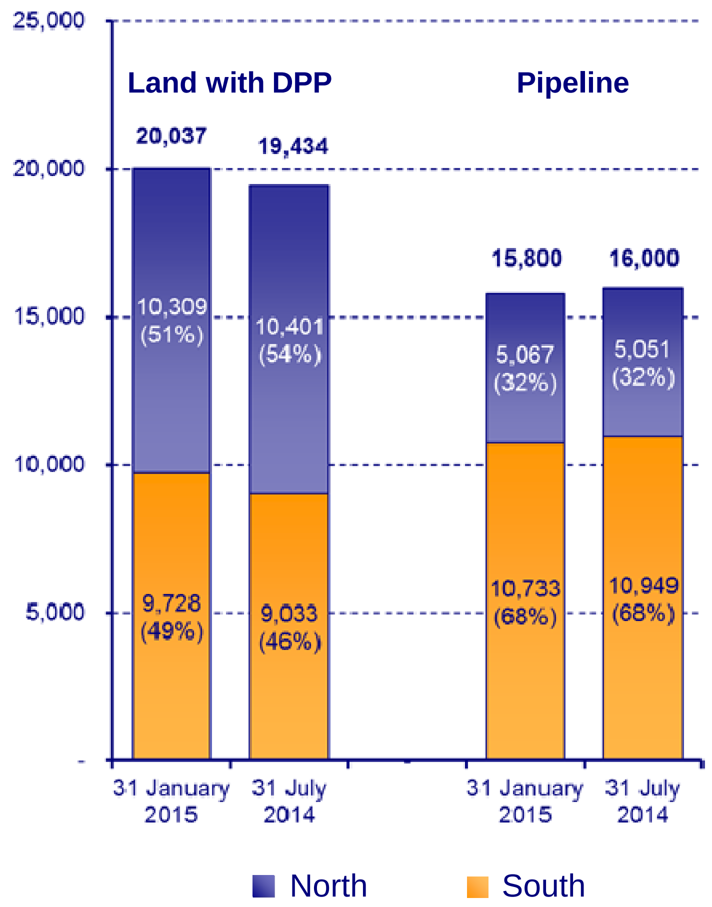
Heads of terms agreed on further **4,200** plots as at 31 January 2015.

Notes

Land supply

As at

Owned and controlled land (plots)



- Contracted to acquire 46 sites in the period – 60% are in the south.
- Increased emphasis towards the south where returns are higher.
- Overall land bank split is right for the Group.

Notes

Case study – Nine Elms

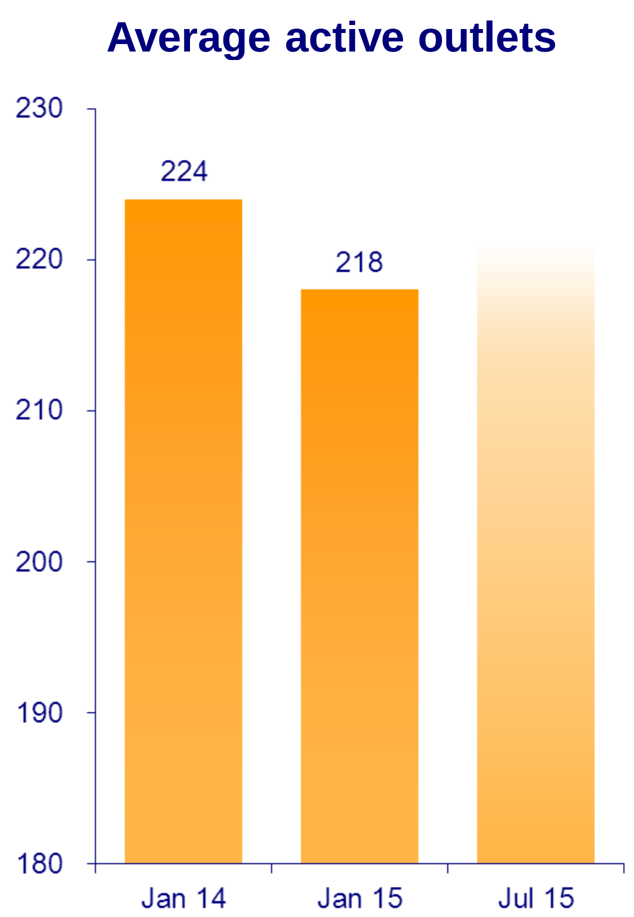
- We will develop more complex schemes if contract terms are compelling.
- Upgraded to zone 1, new Northern line tube station and close to U.S. Embassy.
- Subject to planning contract for £44.4m with part deferred until December 2016.
- Planning obtained in October 2014 for 510 apartments with 76 social and 114 PRS units which helps fund build.
- Gross margin and return on capital expected to exceed 30%.

Notes

Bellway

Sales outlets

As at



- 215 outlets at 1 August 2014.
- 220 outlets at 31 January 2015.
- 40 new outlets to open in H2.
- Could end year with 230 outlets.
- Different locations and product attract different sales rates.
- Outlet numbers should help to preserve weekly sales rate.

Notes

Trading and outlook

Ted Ayres

Chief Executive

Notes

Trading in period

For the half year ended 31 January

	2015	2014	Mvt
Total reservations			
North	1,610	1,544	4.3%
South	1,994	2,012	(0.9%)
Total	**3,604**	**3,556**	**1.3%**
Sales rate (to 0 d.p.)			
North	62	60	4.3%
South	77	77	(0.9%)
Total	**139**	**137**	**1.3%**

- Return to normal seasonal trading pattern.
- Help to Buy used in 24% of reservations.
- Incentives remain low.
- Cancellation rate only 11% reflecting healthy customer confidence.

Notes

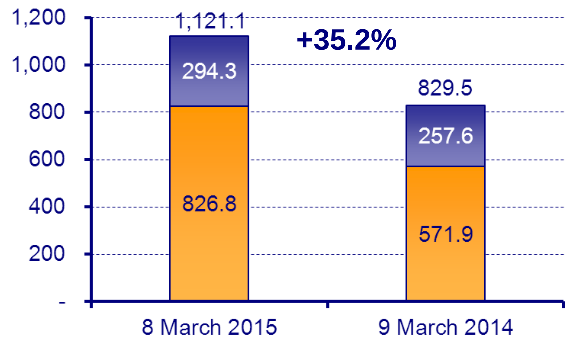
Current trading and order book

- Reservations of 152 per week from 1 February to 8 March – up 10%.
- Expect usual seasonal pattern of reservations.
- Mindful of May general election.

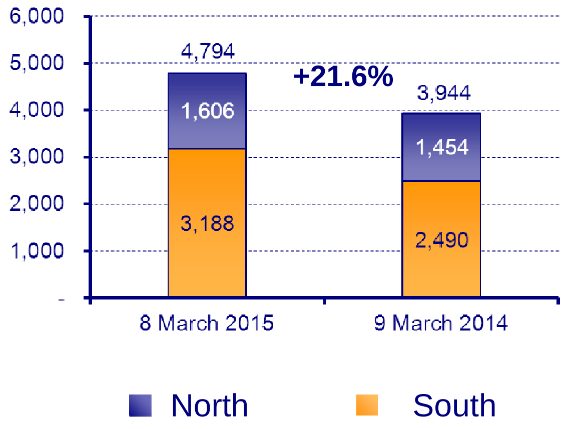
As at

Current order book

Value (£m)



Units



Notes

Outlook

- Strong forward sales position.
- Effective management of supply chain constraints.
- Expected volume growth in excess of 10% in current financial year.

Sustainable and long term shareholder returns

Notes

Questions and answers

Bellway

Hampton Grange, Bromley

Notes

Appendices

1. Geographic analysis
2. Product analysis
3. Buyer analysis
4. ASP analysis
5. Order book at 31 January
6. Strategic land
7. Land bank glossary
8. Shared equity
9. Accounting standards

Notes

Appendix 1 – Geographic analysis

For the half year ended 31 January

Unit completions

	Private		Social		Total	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
	No.	*No.*	***No.***	*No.*	***No.***	*No.*
North	**1,569**	1,379	**253**	95	**1,822**	1,474
South	**1,534**	1,512	**398**	259	**1,932**	1,771
Total	**3,103**	2,891	**651**	354	**3,754**	3,245

Average selling price

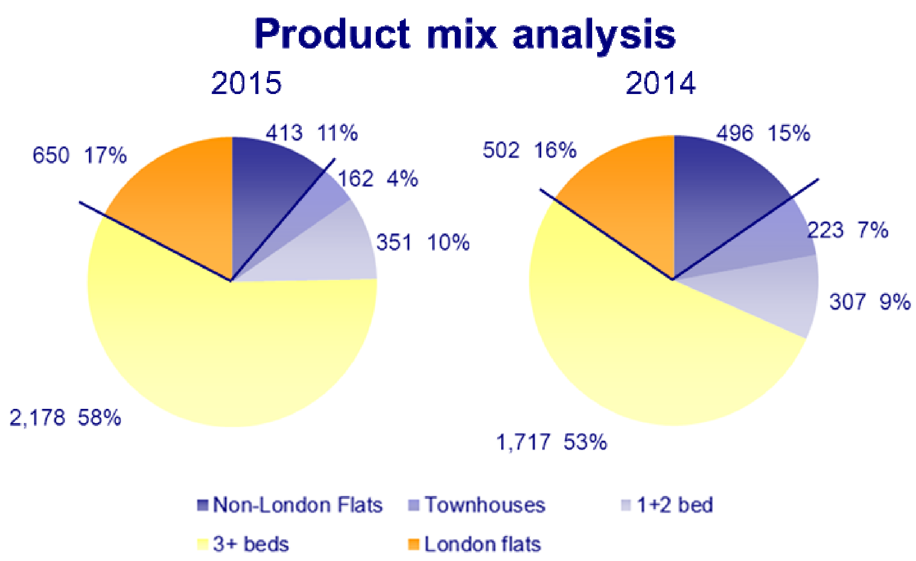
	Private		Social		Total	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
	£000	*£000*	***£000***	*£000*	***£000***	*£000*
North	**203.9**	183.7	**87.8**	87.6	**187.8**	177.5
South	**277.9**	262.5	**138.0**	114.5	**249.1**	240.8
Group	**240.5**	224.9	**118.5**	107.3	**219.3**	212.1

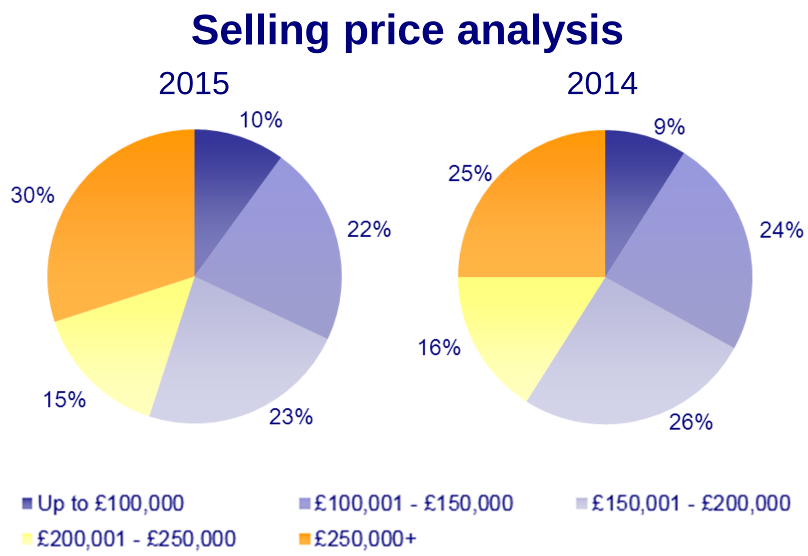
Notes

Appendix 2 – Product analysis

Bellway

For the half year ended 31 January





- Over half of flats are in London.
- Townhouses are only 4% of output.
- High average selling price for a national housebuilder.

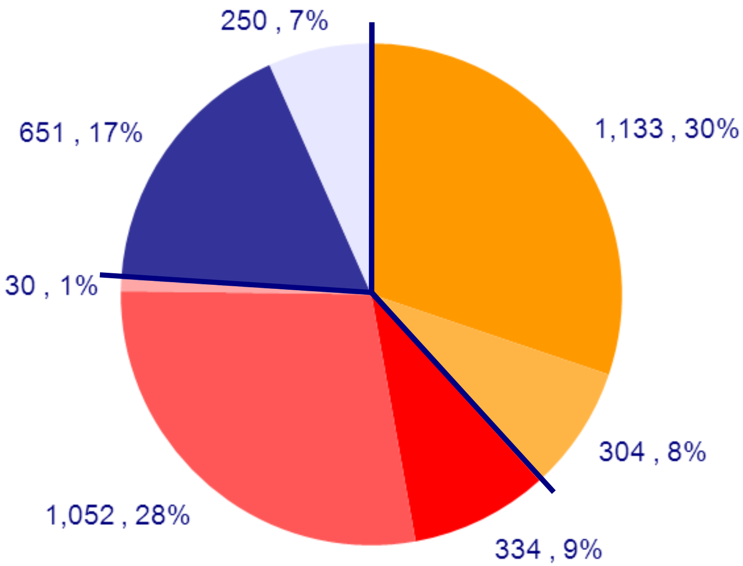
Flexible land buying

Notes

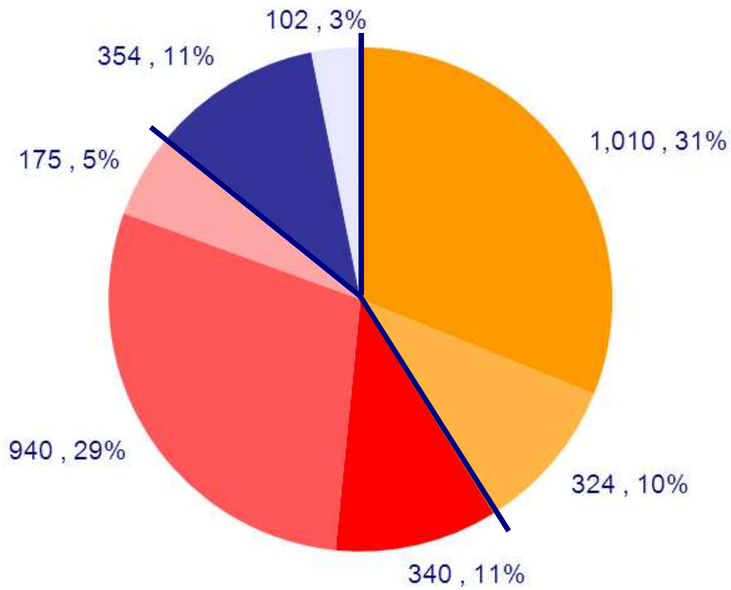
Appendix 3 - Buyer analysis

For the half year ended 31 January

2015



2014



Second time buyers	**Deposit assisted and first time buyers**	**Other buyers**
Other second time buyers	Unassisted first time buyers	Housing Association
Part exchange	Help to Buy	Investor
	NewBuy	

Notes

Appendix 4 – ASP analysis

For the half year ended 31 January

ASP / square foot (£)

	2015			**2014**			**Mvt**		
	Private	**Social**	**Total**	**Private**	**Social**	**Total**	**Private**	**Social**	**Total**
North	184	110	176	171	115	168	7.6%	(4.3%)	4.8%
South - made up of:-	293	174	272	276	150	261	6.2%	16.0%	4.2%
London	371	255	356	371	192	353	-%	32.8%	0.8%
Non-London	253	147	232	233	137	221	8.6%	7.3%	5.0%
Group average	**234**	**149**	**222**	**223**	**141**	**216**	**4.9%**	**5.7%**	**2.8%**

- London average selling price still affordable.
- Positive pricing environment.

Notes

Appendix 5 – Order book at 31 January

As at

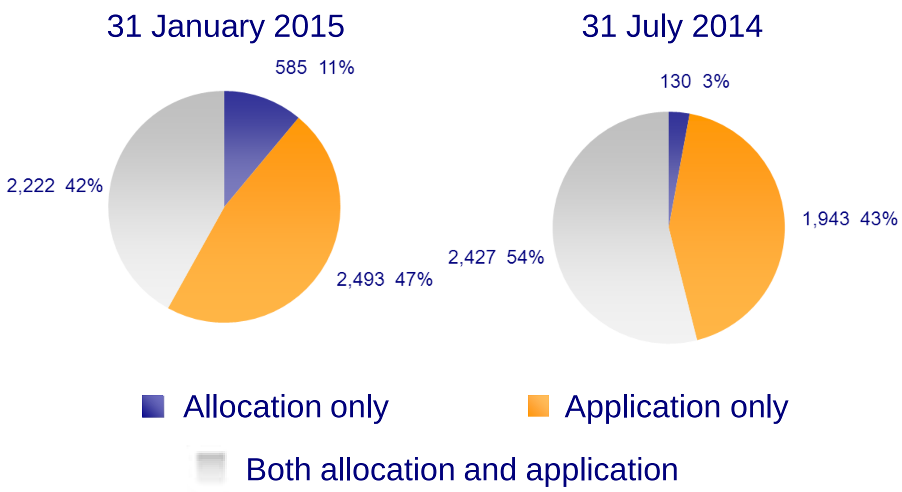
	31 January 2015			31 January 2014			Movement		
	Private	**Social**	**Total**	**Private**	**Social**	**Total**	**Private %**	**Social %**	**Total %**
At 1 August	**3,164**	**1,199**	**4,363**	2,503	1,022	3,525	*26.4%*	*17.3%*	*23.8%*
Reservations	**2,948**	**656**	**3,604**	3,338	218	3,556	*(11.7%)*	*200.9%*	*1.3%*
Completions	**(3,103)**	**(651)**	**(3,754)**	(2,891)	(354)	(3,245)	*7.3%*	*83.9%*	*15.7%*
At 31 January	**3,009**	**1,204**	**4,213**	2,950	886	3,836	***2.0%***	***35.9%***	***9.8%***

Notes

Appendix 6 - Strategic land

As at

Strategic land by category



- 5,300 plots in strategic land bank with positive planning status.
- A further 40 sites are currently being progressed through the planning system.

Notes

Appendix 7 – Land bank glossary

Owned and controlled plots

- **DPP**: Plots owned or unconditionally contracted by the Group where there is an implementable **detailed planning permission**.
- **Pipeline:** Plots owned or controlled by the Group pending an implementable detailed planning permission, with development generally expected to commence within the next three years.

Strategic plots

- **Strategic:** Long term plots which currently have a positive planning status and are typically held under option.

Notes

Appendix 8 - Shared equity

As at

	31 January 2015	31 July 2014
Number of assets owned	2,451	2,682
Book value (BV)	£26.5m	£32.2m
Original loan (OL)	£60.1m	£70.4m
BV / OL	44%	46%
Cumulative redemptions to date (units)	710	479
Book value / Net asset value	1.8%	2.4%

Notes

Appendix 9 – Accounting standards

- In previous years IFRSs allowed jointly controlled entities (JCEs) to be consolidated using either the equity method or proportional consolidation. The Group's accounting policy was to use proportional consolidation.
- On 1 August 2014 the Group adopted IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities'.
- The adoption of these new IFRSs removed the choice over the consolidation method used. Entities that were previously considered to be JCEs were assessed to determine whether they were considered to be a joint venture or a joint operation. Once this was determined, the consolidation method prescribed by the new standards is as follows:-
  - Joint venture – equity method of accounting.
  - Joint operation – line by line method of accounting.
- Where the adoption of these new standards resulted in entities being categorised as joint ventures and consolidated using the equity method, the Group has restated the comparative information.
- This restatement has resulted in no changes to profit after taxation or net assets, but has resulted in some very minor changes to metrics such as gross profit, gross margin, operating profit, operating margin and ROCE.
- Throughout the results presentation the restatements are marked with '*'.